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SIPDIS

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SUBJECT: Germany's Coming Solar Eclipse?

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¶1. Summary: Environment Minister Norbert Roettgen plans to cut Germany's solar feed-in tariffs by 15 percent as of April 2010. While the proposals are much less dramatic than the 30 percent reduction advocated by consumer organizations, the solar sector has indicated that any subsidy cut above 10 percent would be intolerable. Roettgen's plans, which still need parliamentary approval, are controversial even within his own party, the Christian Democratic Union (CDU). Representatives from CDU-governed federal states with a high concentration of solar companies fear job and tax revenue loss. Some have threatened to oppose the amendment in the upper house of parliament, the Bundesrat, potentially blocking the law. End Summary

German Solar Feed-In Tariffs - the Basics

¶2. (U) On January 20, 2010, Environment Minister Norbert Roettgen (CDU) presented an amendment to Germany's Renewable Energy Law that would cut solar feed-in tariffs (FIT) for new, roof-mounted solar-powered devices and open field sites by 15 percent from April 1, 2010 and July 1, 2010 respectively. FIT for farmland sites would be cut 25 percent from July 1, 2010. The proposed amendment reflects the newly-elected government's October 2009 coalition agreement, which contained plans to reduce solar subsidies by more than 9 percent annually. (Comment: Since 2000, Germany's generous FIT have provided a 20-year guarantee on above-market prices for electricity generated by renewable energy. The rates are financed through surcharges on consumers' electricity bills and, therefore, are technically not a state subsidy. Nevertheless, the tool effectively shifts the burden of subsidizing renewable energy deployment from taxpayers to electricity ratepayers. End Comment)

Supporting Legislation and Party Positions

¶3. (U) Germany's revised Renewable Energy Law, effective since August 2004, increased the overall solar tariff rate, but provided for 5 percent yearly cuts thereafter. In 2008, many CDU/Christian Social Union (CSU) and Free Democratic Party (FDP) politicians argued that the feed-in tariff was generating an unaffordable proliferation of solar farms. Along with consumer advocates, they called for a 30 percent cut in the tariffs to mirror the 30 percent decrease in the cost of solar cells. Despite strong opposition from federal states home to solar industries, the then CDU/CSU and Social Democratic Party (SPD) government decided to increase the rate of yearly tariff cuts: a 5 percent reduction in 2009, 8 percent in 2010 and 9 percent in 2011.

Germany's Solar Boom

14. (U) Germany's Renewable Energy Law created a solar boom market, making Germany the world's largest photovoltaic market. Installed capacity jumped from 768 megawatts (MW) in 2004 to 5,300 MW in 2008. According to the German Solar Federation (Bundesverband Solarwirtschaft, BSW), the solar industry generated 10 billion euros in revenue and accounted for 60,000 jobs in 2009. The generous tariff rates -- 39 euro cents per kilowatt hour in 2010 -- have provided enough incentive for 98 percent of Germany's solar producers to connect to the grid. Nevertheless, photovoltaic electric energy generation still accounts for less than 1 percent of total electricity production.

Consumer Protection Concerns

15. (U) Environment Minister Roettgen (CDU) plans to develop mechanisms to promote renewables that can better adapt to market developments. As he explained, the tariffs have led to over-promotion: "Too many subsidies were granted, costing consumers billions." Consumer advocates echo his calls for a drastic subsidy reduction, arguing that the renewable energy law should not finance extra income for producers. Feed-in tariffs came under additional pressure as the price of solar panels dropped approximately 30 percent due to oversupply in 2009. With the high tariffs and reduced production costs, solar companies were among Germany's most profitable enterprises in 2008.

Necessary Incentives?

16. (U) Representatives of Germany's solar industry will

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accept a FIT cut, but have indicated that anything above 10 percent would be intolerable. They fear that customers may be less willing to make the initial investment in solar panels, if the compensation for selling power back to the grid is slashed too drastically. Due to high labor costs, installation costs for solar systems have not decreased as much as the cost of the panels themselves. German solar industry representatives thus argue that the 15 percent cut would lead to 50,000 job losses and significant investment cuts. Moreover, the Federation of Renewable Energy (BEE) argues that the proposed cut threatens Germany's transformation to a low-carbon economy: "If the environment minister wants to implement his ambitious plans to base Germany's energy supply almost entirely on renewable energy by 2050, he must provide for reliable subsidy conditions instead of spooking investors."

The Crisis of Germany's Solar-Panel Manufacturers

17. (U) In spite of the tariffs, Germany's solar energy industry has lost market share to competitors. China's solar industry, which has gained 30 percent of the market share since 2009, particularly benefits from on-going demand for solar panels, often from German consumers, as well as lower labor costs. Global economic conditions further damaged Germany's solar industry. Following the global financial crisis, many banks have been unwilling to finance major solar projects. As a result, German companies have cut jobs and changed manufacturing practices. Saxony-Anhalt-based, Q-cells, for example, plans to lay off 500 employees. The company now ships solar cells to China for final assembly. Similarly, Bonn-based SolarWorld completed in 2009 construction of a factory in South Korea.

Comment

18. (U) Some German lawmakers and companies forecast a shaky future for the country's solar industry if the government removes too much financial support. The cuts may not leave breathing room for investments to compete internationally.

However, the amendment to cut solar feed-in tariffs is not a done deal. Even if the amendment obtains Cabinet and parliamentary approval, it is by no means certain that the Bundesrat will approve it. Some states in Eastern Germany, including CDU-led states that are home to leading solar manufacturers, have threatened to block the law. Solar industry employees in these states have begun to protest the cuts, given even more reason for opposition to the amendment. Given the coalition's slim majority, the law could still fall in the Bundesrat. This would not be the first time that coalition legislation has been blocked in the Bundesrat by its own party members. End Comment

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